West Cook County Housing Collaborative Essay Revised (December 9, 2011)

Background

This year's *Homes for a Changing Region* (*Homes*) report continues to explore the benefits of subregional collaboration in five neighboring municipalities <u>in</u> West Cook County – Bellwood, Berwyn, Forest Park, Maywood and Oak Park. Relative to the 284 municipalities in the Chicago region, each of these communities is mature, diverse, and is served well by retail amenities and public transportation with access to the central city. Similarly, they each benefit from a diverse housing stock in terms of both tenure and structure. It is this diversity of housing and land uses, combined with transit access and proximity to Chicago, that comprise their competitive advantage <u>in seeking new residents and economic development.</u>

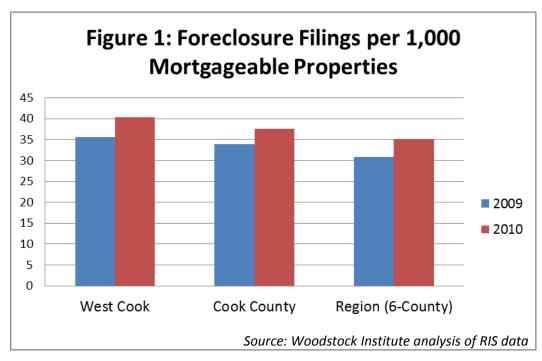
The five communities make up the West Cook County Housing Collaborative (Collaborative), which was formed in 2009 to address shared housing issues stemming from the recent market crash and resulting foreclosure crisis. The Collaborative has several features that shape the way it does business. Each community is bound to the others by a board or council-approved intergovernmental agreement (IGA) describing the Collaborative's structure and powers. A steering committee, made up of elected officials, meets quarterly to make policy decisions by vote. A working committee, made up of municipal staff, meets monthly to implement solutions based on those policies. Both committees must abide by parliamentary process and can only vote if a three-member quorum is achieved. IFF (formerly the Illinois Facilities Fund), a nonprofit lender and real estate consultancy, serves as the collaborative coordinator and is responsible for operational support. The Collaborative has been aggressive in pursuing federal resources to stimulate housing and economic development surrounding the subregion's substantial public transportation assets, or transit-oriented development (TOD).

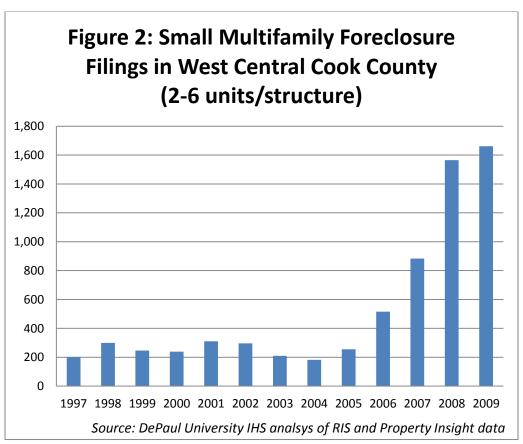
Current Conditions

The Collaborative communities have largely experienced the same housing market recession as the rest of the region and country with several nuances. In the early 2000s the Chicago region experienced a development bubble characterized by higher risk mortgage products (including interest only, adjustable rate and no-money-down mortgages), heightened development of large lot single-family detached housing in rapidly growing suburbs, and increased conversion of multi-family rental buildings to condominium ownership. Projections of future housing demand and supply indicated a sizeable mismatch between the type of housing needed and the type of housing likely to be supplied if present trends continued. The first four reports issued in the *Homes for a Changing Region* series called for changes in future housing development that would make supply conform with projected demand. The very first *Homes* report, issued in 2005, also highlighted the problems that higher risk mortgage products might create at some future date.

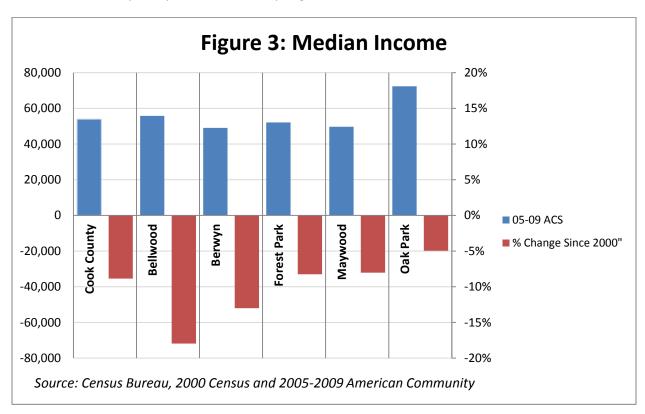
Since the current steep recession began in 2008, the foreclosure crisis has hit West Cook County communities harder than the County or the region at large (Figure 1). Specifically, foreclosure filings of small multi-family buildings (2-6 units) increased by 77% from 2007 to 2008 (Figure 2) in West-Central

Cook County. Home sale prices in both condominium and single-family products have trended downward since 2009 in all five communitiesⁱ.



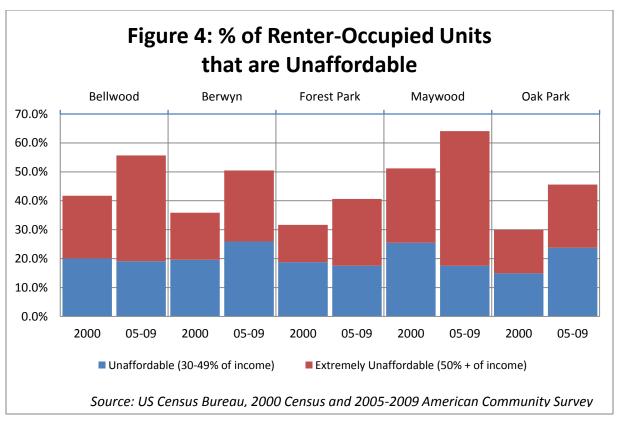


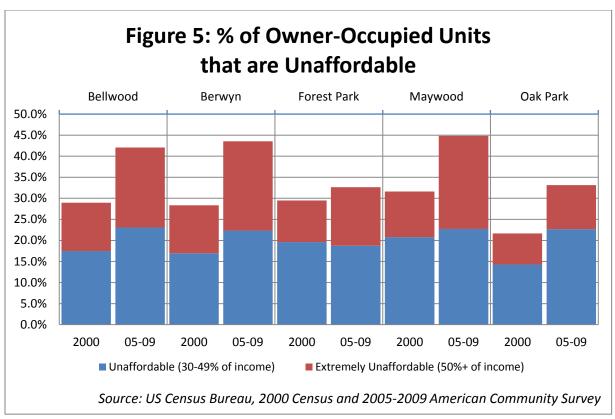
Meanwhile the non-housing-related aspects of the recession have also hit some Collaborative communities harder than Cook County at large. Unemployment rates in both Berwyn and Maywood exceeded County unemployment in 2010ⁱⁱ and continue to grow at a faster rate in both towns than the Countyⁱⁱⁱ. When adjusted for inflation, real incomes have declined across the region, but declines in Bellwood and Berwyn outpaced Cook County (Figure 3).

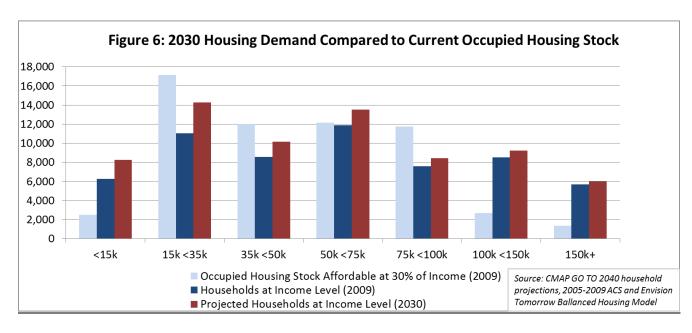


[Drew: Delete the four negative numbers on the left axis and the four positive percentages on the right axis. This will make the exhibit easier to follow]

The result of this combination of <u>lower real income</u> and unemployment has been that housing costs now consume a larger share of household incomes (Figures 4 and 5). On the rental side, increased housing costs are the result of increased demand for rental housing which has caused rents to increase over the past several years^{iv}. Demand for rental housing is expected to outstrip supply through the end of 2011 and perhaps into early 2012^v. In the owner-occupied part of the housing market there is and will continue to be unmet demand for housing at both the very low and the very high ends of the income spectrum (Figure 6).







The Impact of Policy "Solutions"

State and federal programs meant to address the current housing crisis have only made a modest impact on the market. Mortgage relief programs have fallen far short of their original goals because they did not provide incentives to reduce mortgage principal to reflect the value of the property covered. The Treasury Department's ambitious "Hardest Hit" program, a program that has provided \$443 million to the State of Illinois to help homeowners faced with mortgage challenges, will temporarily provide relief to roughly 15,000 families^{vi}, a small fraction of the families going through or about to go through foreclosure proceedings. Significantly, the State has earmarked \$100 million of these funds to a public-private partnership run by Mercy Portfolio Services, which will purchase mortgages at a significant discount and restructure their principal amounts in such a way as to keep up to 6,000 homeowners in their homes^{vii}. Had this program design been the centerpiece of a much larger federal mortgage relief program, the scope of today's foreclosure crisis might have been much narrower.

Counseling programs, while providing valuable advice to families in the midst of foreclosure proceedings, have been modestly funded and have only been able to serve a small fraction of families needing help. The Oak Park Regional Housing Center is the sub-region's main provider of foreclosure prevention assistance counseling. While the Center provides quality services, it would need substantial funding to scale up to meet demand. Programs to rehabilitate or tear down vacant homes, most notably the Neighborhood Stabilization Program (NSP), have been completely inadequate in scope. The Chicago metro area offers a case in point. NSP I and NSP II, which provided over \$270 million in funding, will end up impacting less than 7,000 properties in a regional market that has already experienced over 275,000 foreclosures^{viii}.

After the Shock

It is unclear when the inevitable housing market recovery will happen and what it will look like. The timing of a recovery will largely depend on when demand for homeownership returns, which could be triggered by an uptick in first-time buyers or household growth^{ix}. However, in the near term, rental housing is likely to be the key growth sector^x. It is clear that the strength of the recovery will depend largely on how fully employment bounces back to pre-recession standards^{xi}.

So, the question becomes, "What role should forward- looking housing planning take given the shock that regional housing markets have experienced over the last four years?" With so many homes caught in the foreclosure crisis and new construction at near an all-time low, why bother to plan for future housing development?

First, as daunting as it now appears to be, the current wave of foreclosures will subside and, over a period of years, foreclosed homes will either be reoccupied or torn down.

Second, the demographic trends we first described in our first *Homes for a Changing Region* report will come to pass and create demand for new housing. Population in the seven county Chicago metropolitan region will increase from 8.5 to 10.9 million by 2040. The senior population ill more than double to 1.9 million; the Latino population will increase by almost 150%, reaching 3.5 million^{xii}.

Third, and perhaps most important, well thought through housing planning on a community-by-community basis can avoid the mistakes that contributed significantly to the current housing crisis, mistakes which included:

- Not preserving enough moderately priced dwelling units, be they small sized homes, town
 homes or attached homes, especially in the region's higher job growth communities. In today's
 housing market "moderately priced" equates to homes priced between \$140,000 and \$200,000.
- Encouraging and permitting the construction of too many large lot single-family homes and discouraging the construction of small lot single-family homes, townhomes, and attached homes.
- Not creating housing options for multi-generational families that want to live together and seniors who want to age in place.
- Allowing too many multi-family rental units to be subdivided as condominium buildings.

Recommendations for Future Sub-Regional Action to Address the Current Housing Crisis

We believe the West Cook Collaborative and its member communities are in a good position to take effective action over the next several years to address the current housing crisis. The following common strategies should be actively considered:

1. Seek to build sub-regional capacity to rehabilitate 80-100 homes per year: A single rehabilitation organization, one which can take advantage of staff and back-office economies, should be created or, if an experienced organization outside the sub-region can be found, brought into the

- area. This new organization can work in all five Collaborative communities. It can also be set up to provide homeowner counseling services and foreclosure prevention services
- Aggressively pursue opportunities for transit-oriented development (TOD) near existing mass transit stations. Look for opportunities to redevelop vacant or underutilized land in or near TOD sites. Consider creating a revolving loan fund to encourage redevelopment within walking distance of transit stations. Newly won grant funding, together with technical assistance from CMAP, can be used for this purpose.
- 3. Update existing comprehensive plans, again using newly awarded grant funding. Pay special attention to current zoning requirements, updating them when they do not conform to plans for future development. Look for ways to create or redevelop housing products two-to-three flat units, townhomes and small single-family homes that appeal to fast growing population segments.
- 4. Preserve affordable rental housing and consider encouraging scattered-site home rental operations so long as they are carefully monitored and regulated by municipal government.
- 5. Remain actively involved in foreclosure mitigation and take advantage of any new federal or state program which facilitates renovation or demolition of abandoned homes.
- 6. Continue to work with local businesses to take advantage of state incentives to offer employer assisted housing to those wishing to live nearer their workplaces. Connect those employees to housing opportunities resulting from Collaborative and municipal rehabilitation efforts.
- 7. Continue to work with local businesses to take advantage of state incentives to offer employer assisted housing to those wishing to live nearer their workplaces, and connect those employees to housing opportunities resulting from collaborative and municipal rehabilitation efforts.

Figures from Redfin (http://www.redfin.com/city/6883/IL/Berwyn-Cook-County-IL, http://www.redfin.com/city/6883/IL/Berwyn-Cook-County-IL, http://www.redfin.com/city/6883/IL/Dak-Park-Cook-County-IL, http://www.redfin.com/city/6883/IL/Oak-Park-Cook-County-IL)

Figures from Illinois Department of Employment Security do not include Bellwood or Forest Park because of sampling issues (not enough sample to estimate with accuracy).

iii ibid

^{iv} Umberger, Mary, "Rental demand, prices are heating up" *Chicago Tribune*, August 5, 2011, accessed November 2, 2011, http://articles.chicagotribune.com/2011-08-05/classified/ct-mre-0807-umberger-rental-market-20110805 1 rental-demand-chicago-rental-market-second-quarter-index

^v & Sturges, Jenette, "Rents keep rising as demand outstrips supply," The Beacon News, September 22, 2011, accessed November 2, 2011, http://beaconnews.suntimes.com/news/7365075-418/rents-keep-rising-as-demand-outstrips-supply.html

vi Chicago Tribune, September 14, 2011 quoting Mary Kenney, Executive Director of IHDA

vii Add other partners involved (note from AM)

^{viii} An estimate which assumes that the cost of rehabbing, land banking or demolishing a property averages \$40,000 (acquisition and rehab will cost more; land banking or demolishing will cost much less)

^{ix} Fernald, Marcia, ed., *State of the Nation's Housing: 2011,* Joint Center for Housing Studies of Harvard University ^x Ibid

xi Ibid

xii CMAP analysis based on Census methodology applied to CMAP population growth forecast data.